

St Albion's Scottish Episcopal Church

Case Study

Introduction

As part of the afternoon session looking at the new accounting regulations, we are going to be looking at an example set of accounts for a fictional church. This paper gives some background on the scenario and it would be useful if you could read it before you come to the workshop.

Different churches have a huge range of activities, sources of income, types of expenditure etc. This case study is an attempt to pull together some of the most common situations in one scenario. We would not expect one church to have all the following characteristics, but we hope it will cover most of the key aspects of churches with gross income of less than £250,000.

Background Material

You have recently taken over as the treasurer for St Albion's, an Episcopal church in a small town in central Scotland. The previous treasurer had been in post for the past 10 years (as no one else was willing to do it). He was comfortable with the day to day work involved in the role, such as keeping track of the receipts and payments in a manual cash book, paying expenses, ensuring receipts are banked correctly etc. He has always prepared simple financial statements at the end of each year for presentation in the Annual General Meeting; the congregation presumably understood this format as they never asked any questions. He usually managed to persuade his neighbour (who is a retired Baptist Minister) to do an independent review of accounts.

The former treasurer has been in post all year, and has passed you his cash book records and asked you to prepare the accounts as he feels that with all the changes introduced by the new Scottish Charities Regulator, it would be better if you were the one who took things forward under the new regime.

You only joined St Albion's a few months ago when you moved into the area. You have therefore collected some background information about the church from talking to others on the vestry to help you understand the nature of the organisation and its transactions.

For the purposes of this scenario, we are envisaging that it is now October 2012 and that you are preparing the accounts for the year ended 30 September 2012.

Background Information on St Albion's Church

St Albion's church has been a worshipping congregation for about 150 years. Its current average congregation on a Sunday morning is around 40 communicants. Because of the relatively small number of communicants, it shares a full time rector

with St Trinnian's in the adjacent town. However, the congregations of both churches have been growing over the past few years and the charges now also share a curate (appointed in September 2010).

St Albion's is the wealthier of the two charges and owns the property in which the Rector lives. The curate lives in a flat which has been lent to the church for £1 per year by a benefactor in the congregation. St Albion's has an organist and a choir master who are each paid a small honorarium. All other work is carried out on a purely voluntary basis.

The payroll function is carried out by the Diocese. The Diocese pays the stipends and other employment costs each month. At the beginning of the year, the Diocese calculates the monthly amount due from each charge to cover all the payroll costs and this amount is paid to the Diocese as a monthly standing order. The Diocese has awarded the joint charges a grant towards half the curate costs. This has been netted off against the monthly payroll costs for each charge.

Most other joint costs are paid in the first place by St Albion's and then recovered at the end of the year from St Trinnian's.

The church has a small function hall next door. This is used as a community café once a month, plays host to the Mothers and Babies coffee morning every second Thursday in the month, and is also used by non-church groups. Part of the hall had been used on a regular basis by the chaplain for the local school for which the church received £1,000 a year rent under a formal rental agreement. However, this arrangement ceased at the end of September 2010 and only ad hoc rental income (from local music groups) has been received during the year.

The church was built in the nineteenth century and is in need of considerable repair work. It therefore launched a restoration appeal in October 2011 and has raised significant funds from the congregation, from special fundraising activities and has received grant funding from Historic Scotland. At the year end, the certified value of work completed to date on the restoration was £22,000. So far only £16,000 of this has been invoiced for and paid. The church is insured for £1.4mn.

The large rectory building, occupied by the Rector was bought in the 1960s for £15,000. It is insured for £300,000. The church owns no other significant tangible assets except for a photocopier. (An old photocopier was sold for £300 during the year and a new one bought for £1,000).

The church banks with Triodos bank where it has a current account and a thirty day notice interest-bearing account. It invests money for the longer term in units in the SEC Unit Trust Pool.

The congregation is very supportive of other charities. Various special collections are taken during the year in response to specific appeals (such as the Bishop's Lent appeal) or world events (such as the Pakistan earthquake). Additionally, the church aims to donate at least 5% of its general income to charities selected by the

congregation each year. This always includes a donation to their 'twin' church in Uganda. St Albion's always ensures that it pays its quota to the Diocese / Province on a timely basis.

The church regularly receives small legacies, most of which are to the church for general use. In the past year it received a legacy which specified that it was to be used for the restoration of the stained glass windows.

The church was originally established as an offshoot of a larger city church. At its establishment, a permanent endowment fund was set up for it. Part of the capital of this fund was invested in the Rectory and the balance in units in the SEC pool. The income can be used for any charitable purpose at the discretion of the Trustees, but the capital cannot be used.

During the year, a member of the congregation kindly paid the bill for the installation of a loop system in the church.

The former treasurer has explained to you how the church can recover income tax on gift aided donations and also that it should be able to recover VAT on much of the restoration work costs, although he has not made such a claim yet. Looking at the restoration costs, he estimates that you should be able to recover £1,750 of VAT on the expenditure to date. He usually does the gift aid claims on a tax year basis, rather than a church year one. The tax reclaim for this year therefore included about £3,000 relating to donations made in the previous financial year. He estimates that there is a further £1,000 of tax still recoverable on donations received since he did the last claim.

A summary of the receipts and payments which have gone through the bank statement is attached. The opening balances on the bank accounts, the Unit trust pool and the reserves are shown below.

	Unrest- ricted Funds	Rest- ricted	Endow- ments	Total
	£	£	£	£
<i>Cash at bank and in hand (including deposit account)</i>				
Balance at beginning of year	10,000	5,000	0	15,000
<i>Investments</i>				
Market value at beginning of year	15,000	10,000	20,000	45,000
<i>Assets retained for Charity's own use - Rectory</i>				
Historic cost	0	0	15,000	15,000
<i>Total Fund Balances (Reserves)</i>				
At beginning of year	<u>25,000</u>	<u>15,000</u>	<u>35,000</u>	<u>75,000</u>

Summarised Cash Book - Receipts

	£
Donations	
Regular congregational giving	8,000
Collection plate - main services	3,500
Collections - funerals & weddings	500
Restoration appeal	20,000
Special collections	3,152
Tax recovered on donations (see note)	5,000
Legacies	
Mrs B	500
Other unrestricted	1,000
Fundraising	
Café receipts	1,200
Restoration Appeal Fundraising concerts	800
Restoration appeal silent auction	600
Hall	
Contributions from music groups for use	200
Grants etc	
Travel grant from Diocese	500
Historic Scotland	10,000
Investment income	
Return on investments in SEC UTP	4,500
Bank interest	100
Other	
Receipts from coffee mornings etc	600
Fees for weddings, funerals etc	330
Proceeds from sale of old photocopier	300
From joint charge	
Share of travel expenses	1,000
Share of rectory expenses	2,500
Share of other expenses	250
	<u>64,532</u>
Gift Aid:	
relating to general giving	2,000
relating to restoration appeal	2,500
relating to special collections	500

Summarised Cash Book – Payments

	£
Clergy related costs	
Payments to Diocese for payroll costs (see note 1 overleaf)	17,600
Clergy travel expenses	2,000
Contributions towards running costs of Rectory (heat, light etc)	2,000
Clergy business expenses re-imbursed (post, phone, etc)	500
Council tax on Rectory & curate's house	3,000
Other personnel costs	
Organist	600
Director of Music	600
Payments for weddings, funerals etc	500
Rectory Costs	
Rectory insurance	500
Minor roof repairs to rectory	600
Church & Hall costs	
Insurance	1,100
Heat & light	500
Running repairs and maintenance	600
Restoration project repairs and costs	16,000
Worship - related costs	
Supplies	300
Material for new altar frontal	100
Fundraising costs	
Café supplies	500
Printing & publicity for restoration appeal concerts	100
Administrative costs	
Stationery - gift aid envelopes etc	40
Printing & Photocopying of pew sheets etc	40
Postage	40
New Photocopier	1,000
Donations	
Special collections	3,152
Other donations	1,000
Quota	
	3,000
Purchase of SEC Units	
	10,000
	<u><u>65,372</u></u>

Note 1

St Albion's has paid £1,467 per month to the Diocese during the year to cover payroll items. At the beginning of the year the Diocesan Administrator sent a schedule showing the derivation of this amount as follows:

	£
St Albion's share of Rector's stipend + Employer's NI + Pension contributions	12,000
St Albion's share of Curate's stipend + Employer's NI + Pension contributions	11,000
Plus: payroll administration charge for year	100
Less: St Albion's share of curate stipend support grant	(5,500)
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Total cost for year	<u>17,600</u>
Monthly amount due	1,467

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